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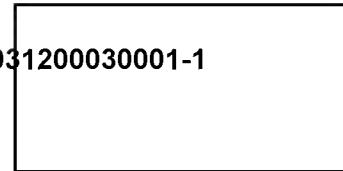
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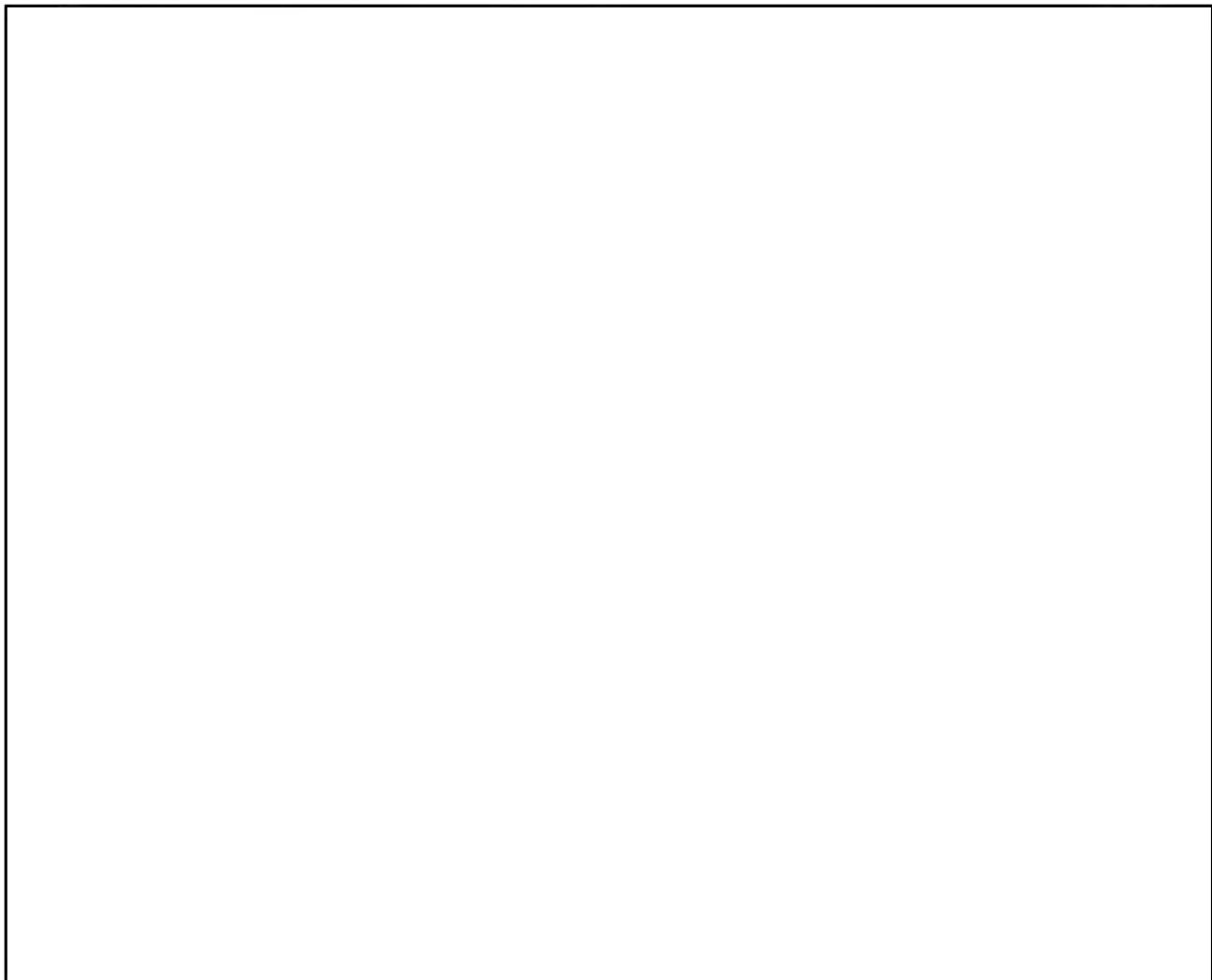
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SITUATION REPORTS

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CHINA-VIETNAM-USSR



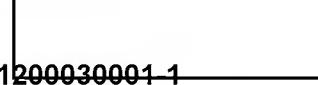
Vietnam has officially replied to China's proposal to negotiate their border conflict. A Vietnamese Foreign Ministry note yesterday termed the proposal a "trick" but accepted negotiations in principle. The Vietnamese stated they are willing to negotiate if the Chinese "permanently" end their aggression and withdraw "immediately and unconditionally" across the "historic borderline" previously agreed to by the two sides.

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Chinese officials have stated recently that after withdrawing the troops Beijing will retain the option of reentering Vietnam should Vietnamese activity make it necessary, and China is unlikely to accept a precondition that commits it never to cross the border again. Vietnam, in its reference to the "historic borderline," appears to be responding to rumors that Chinese troops will withdraw to a border defined by China. [redacted]

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Hanoi leveled its strongest charges to date against the US and its allies yesterday and on Thursday. The Vietnamese claimed that during his recent trip to the US and Japan, Deng Xiaoping won "approval and support" for Beijing's actions and accused the US and its allies of "deliberately belittling" the seriousness of the invasion. One broadcast called US collusion with China part of the "sinister policy of the Carter administration." [redacted]

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In his election speech yesterday, Soviet President Brezhnev gave no indication of what action the Soviets would take if China does not stop its attack on Vietnam. He predictably condemned China's actions and demanded "the immediate ending of the Chinese aggression" and a total Chinese withdrawal. Brezhnev warned that "the entire danger of any forms of connivance" with Beijing's policies "is more evident now than ever before." These comments are consistent with the Soviet Government statement of 18 February. [redacted]

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Despite his reference to US collusion, Brezhnev signaled a continuing Soviet desire to insulate the dialogue with Washington on detente and strategic arms control from the Sino-Vietnamese conflict. [redacted]

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Three hours after Brezhnev spoke, the Soviet Government issued a second official statement on the Indochina conflict. The new statement, like the earlier one, stops far short of committing the Soviets to any military course of action and fails explicitly to place the weight of the USSR behind the warning that China's actions "cannot leave uninvolved" those genuinely interested in peace. Indeed, the statement seems designed more to put pressure on unspecified states accused of "complicity" with the aggression and to mobilize world opinion against China than to warn the Chinese. The USSR-Vietnam Friendship Treaty is not invoked. [redacted]

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The statement focuses on China's alleged intention to expand its military operations into Laos. Chinese engineering troops have been present in Laos for years, but we have no indication that the Chinese are planning any military operations in or through Lao territory.

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IRAN

Differences are continuing among Iranian political and religious leaders over the timing for reestablishing normal government activity, the type of government to be decided by national referendum, and the treatment of tribal minorities.

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Minister of Information Minatchi has told a US Embassy officer that the revolutionary committees will soon be dissolved--perhaps as early as next week. The more radical committee members are sure to resist any effort to reduce their power, however. Prime Minister Bazargan, who has been critical of the committees' role as a parallel government, may not be able to abolish them despite the tacit support of Khomeini in his effort to do so. Even if the committee members agree to join the government Bazargan may soon find them playing a dominant role.

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There are also indications that the most prominent religious leader in Tehran, Ayatollah Taleghani, is beginning to separate himself from Khomeini on substantive issues. He is not likely to break openly with Khomeini, who remains near the peak of nation power. Taleghani publicly stated that he and Khomeini did not discuss important issues during their meeting prior to Khomeini's departure for Qom.

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BRIEF AND COMMENTS

USSR: Brezhnev on Disarmament

The highlights of Soviet President Brezhnev's speech yesterday dealt with arms control.

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Brezhnev called for SALT III to begin after the entry into force of SALT II, a reflection of increasing Soviet apprehension about prospects for US ratification. In contrast, Soviet Foreign Minister Gromyko last May called for SALT III to begin "immediately after the signing" of SALT II. Brezhnev asserted that SALT III would slow the creation of new weapons types and provide for further reductions "by both sides."

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The Soviet leader also spoke at length about the benefits of the prospective SALT II treaty and predicted that it will "probably be signed during my meeting with President Carter, hopefully in the near future." He called the treaty a "reasonable compromise," but noted that "not everything in it fully accords with our wishes. He claimed that it would help revive the Comprehensive Test Ban, Conventional Arms Transfers, Mutual and Balance Force Reduction talks and improve the international climate.

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Brezhnev made the first reference by a top-level Soviet official to reports about the possible deployment in West Germany of "medium-range nuclear-missile weapons aimed at the Soviet Union." He said such a development would raise tension in Europe, exacerbate the arms race, and drastically increase the danger to West Germany. He offered to negotiate the reduction of nuclear missiles and medium-range and other weapons in Europe "on the basis of complete reciprocity," but said due account must be taken of US bases there as well.

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If Brezhnev was referring to Soviet medium-range missiles, it would be the first time that Moscow has indicated willingness to put them on the bargaining block in arms control talks. Brezhnev seems to be encouraging the West, especially the West Germans, to pursue the arm control rather than force modernization track in considering NATO policy options.

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Brezhnev called for "something like a non-aggression pact"--an agreement on "not being the first to use either nuclear or conventional arms"--among the signatories of the Helsinki Final Act. The inclusion of conventional arms is probably intended both as a response to the French proposal for a European disarmament conference focusing on conventional weapons and as an attempt to capitalize on what Moscow perceives as frustration in some West European capitals with the current pace of European disarmament talks. [Redacted]

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He also referred to the possibility of extending the so-called military confidence-building measures in the Helsinki Final Act to cover "all considerable troop movements" and "major naval exercises." Brezhnev's reference to naval maneuvers in this context is the first authoritative Soviet statement on this subject, although Soviet diplomats have privately expressed an interest in pursuing this topic. [Redacted]

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In discussing the Soviet defense effort, Brezhnev said the USSR was allocating considerable means to strengthen its security "both in the West and in the East." He claimed that the USSR is spending as much as is absolutely necessary. This statement was consistent with several previous ones he has made and was in keeping with what his Politburo colleagues have been saying. [Redacted]

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Brezhnev's tack on military spending, like his defensive remarks on the compromises by both sides at the SALT negotiations, may have been in response to domestic opposition to any concessions on Soviet defense. Except for these issues, he betrayed few differences within the Soviet leadership, judging by available summaries of similar speeches by his colleagues during the past month. The US Embassy in Moscow has pointed out that Brezhnev and Gromyko are the only Politburo members who addressed the US-Soviet relationship, suggesting indecision in that body and reflecting apprehension over Sino-US normalization and Indochina. [Redacted]

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SPAIN: Suarez' Victory

Prime Minister Suarez emerged stronger following Thursday's election, while his principal rivals, Felipe Gonzalez' Socialists, were weakened. The Communists increased their seats in the lower house of parliament from 20 to 23, and the rightists lost heavily. Although Suarez' Union of the Democratic Center fell nine seats short of an absolute majority in the all-important lower house, he should be able to form a one-party government.

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The results are a personal triumph for Suarez and for his electoral strategy aimed at the center and center-left. He now has time in the post-electoral period to unify and strengthen his party. Important tests lie ahead, but Suarez should be able to get by with ad hoc majorities--at least until a resolution of the regional autonomy problem frees him to form a coalition with one or more regional parties.

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The Socialists' failure to improve on their showing in the previous election will strengthen radicals within the party who oppose Gonzalez' moderate line. The party may veer to the left--as it did in the closing stages of the election campaign--to consolidate its base prior to the party congress in May. This switch is likely to be reflected in more aggressive tactics by the Socialist labor union.

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The Communist Party, by contrast, will be buoyed by its gain and the Socialists' poor showing, and will be looking for further gains in next month's municipal elections.

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The emergence of several new regional parties in parliament signals difficulties ahead on autonomy negotiations. In the Basque region particularly, the winning of four seats by two extremist parties linked with ETA terrorists will stiffen the demands of Basque Nationalists.

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ITALY: La Malfa's Failure

President Pertini will meet with party leaders next week, in the wake of Prime Minister - designate La Malfa's failure to form a government, before deciding whether to appoint a replacement for La Malfa or dissolve Parliament and call an early election.

La Malfa was unable to break the deadlock resulting from the Communists' insistence on cabinet seats and the Christian Democrats' refusal to support any government which met these demands. His proposal included posts for Christian Democrats, Social Democrats, and his own Republican Party. It would have relied for its parliamentary majority on abstention by the Communists and Socialists.

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The Communists evidently rejected this alternative, and the Socialists were reluctant to commit themselves to a government unacceptable to the Communists. Communist chief Berlinguer did suggest that his party might consider backing a government composed of technicians--including independents elected to the current parliament on the leftist ticket--but this proposal ran into stiff Christian Democratic opposition.

Although the Christian Democrats and Communists seem unwilling to alter their respective positions, Pertini may decide to appoint another prime minister - designate--probably a Christian Democrat such as party president Piccoli or Foreign Minister Forlani--in what would likely be a final attempt to avoid a new election.

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LIBYA: Government Changes

Libyan leader Qadhafi has followed through on a longstanding promise to relinquish his governmental positions and devote himself to "revolutionary action." He will doubtless retain predominant power from behind the scenes. Prime Minister Ubaydi--at Qadhafi's behest--this week was elected Secretary General of the Libyan Peoples General Congress to replace Qadhafi. The Congress--theoretically the country's supreme ruling body--also abolished its Secretariat, which had included the four remaining military officers from Qadhafi's old government. This, in effect, ends formal military direction of the government.

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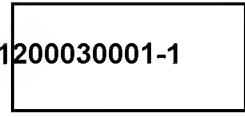
MOROCCO - SAUDI ARABIA: Hassan Visit

King Hassan has postponed his planned visit to Saudi Arabia next Monday, according to a Moroccan Foreign Ministry official. The official said that pressing domestic and foreign policy problems necessitated the King's presence in Morocco. The real cause of the postponement, however, may have been Saudi preoccupation with the Yemeni situation.

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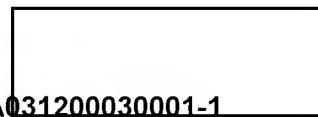
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INDIA-PAKISTAN: Nuclear Program

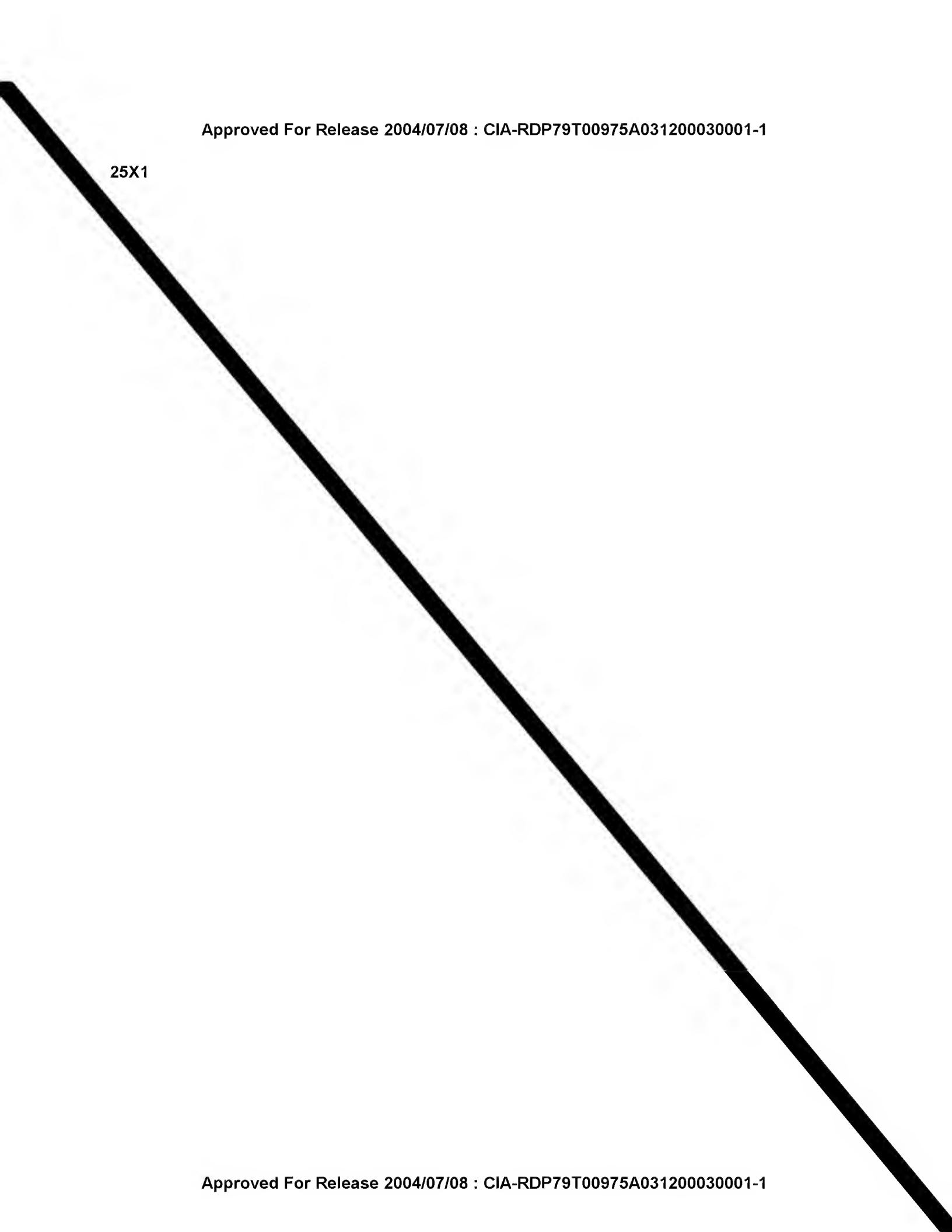
The Indian Foreign Minister has for the first time stated publicly that Pakistan is pursuing a nuclear development program that "may not be entirely for peaceful purposes." There is mounting concern in the Indian Government that Pakistan is pursuing a nuclear capability. An official Indian disclosure of Pakistan's possible movement toward such a capability will severely limit New Delhi's maneuverability in negotiations with the US over safeguards and other bilateral nuclear problems. Any policy that might appear to foreclose Indian options for response to this perceived new threat could even threaten the cohesion of the ruling Janata coalition.

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SPECIAL ANALYSES

UGANDA: Government's Weakening Position

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//The government of President Amin may be near collapse. Amin's fall would initially bring a period of social and economic turmoil in Uganda that could be difficult for the Tanzanians to handle.// 25X1

//Rebelling Ugandan troops apparently took control of the town of Tororo late yesterday. Tororo controls road and rail links with Kenya over which all of Uganda's fuel and other supplies flow. 25X1

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Amin's fall would have the immediate effect of accelerating instability in Uganda. Military indiscipline and turmoil would intensify as new loyalties were sorted out and the remaining players settled old scores resulting from endemic tribal, religious, and ethnic animosities. All of this could be too much for the Tanzanians to handle.

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At this point we see little chance that other neighboring countries would attempt to intervene. They would, however, be nervous about a total breakdown of order in Uganda but would probably be most concerned that any turmoil not spill over into their territory and aggravate their own domestic problems. The Libyans, despite their ties to fellow Muslim Amin, would probably not be inclined to stay around and attempt to repair the situation; they only reluctantly came to Amin's aid last

25X1 month. [Redacted]

The Soviets would probably quickly try to cultivate whatever regime emerges after Amin's fall. They would, however, remain sensitive to the concerns of Nyerere, who like Amin has received the bulk of his military supplies from the USSR. We know of no close Soviet ties to the various Ugandan exile groups, but the Soviets have long believed that their role as chief supplier for the Ugandan military has given them connections that would

25X1 survive Amin's departure. [Redacted]

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IRAN: Foreign Suppliers Face Cutbacks

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//The political crisis in Iran already has curtailed imports and triggered cancellations of some major contracts for future delivery. Even if the new government succeeds in restoring order, imports are unlikely to return to anything like the \$18-billion annual rate of a few months ago. Foreign exchange constraints as well as new economic priorities point to a much smaller Iranian market for foreign goods.//

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The developed countries have provided 85 percent of Iran's total imports--most of which were manufactured goods, with capital-intensive products predominating. In 1977 and 1978, the US supplied 24 percent of Iranian imports from the major developed countries; West Germany, 22 percent; Japan, 18 percent; and the UK, Italy, and France together, 23 percent.

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Exports from the US to Iran grew from \$2.7 billion in 1977 to an annual rate of \$3.7 billion in the first nine months of 1978, accounting for 2.7 percent of total US exports. The US aircraft industry sold nearly 8 percent of its commercial exports to Iran, the largest share for any US industry. Should Iran cancel orders for commercial aircraft, the impact would be softened by the industry's strong order backlog and a willingness of other customers to move up their delivery dates.

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US firms signed a minimum of \$4.5 billion in new contracts during 1977 and 1978. The largest contracts were for military goods and services, communications networks, and construction projects. In addition, joint French-US ventures won contracts valued at about \$2.7 billion for highway construction.

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Military suppliers have been hardest hit by contract cancellations. The recently ousted Bakhtiar government canceled roughly \$7 billion in outstanding con-

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tracts with the US for weapons purchases to save foreign exchange and to curb the large military buildup. Iran will initially pay termination and default charges on contracts it cancels from a trust fund it has established with the US Government. If weapons originally ordered by Iran can be sold to other buyers, Iran could receive some repayment.

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//West German exports to Iran of \$2.7 billion in 1977 and \$2.5 billion in the first three quarters of 1978 represent about 2 percent of its total exports. More than 300 West German companies with a total of 10,000 West German employees operated facilities in Iran. Loss of the Iranian market would be particularly troublesome for the depressed steel and nuclear reactor industries. Few companies, however, would lose money on existing contracts because of export and investment insurance financed by the West German Government.//

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Japan, which sold goods to Iran worth \$1.9 billion in 1977 and \$2.2 billion in the first nine months of 1978, stopped issuing export credits to Iran last month, and no goods destined for Iran have been shipped since then. In 1977 Japanese sales to Iran accounted for 7 percent of its metal manufactures exports.

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In 1977 and 1978 Japan received \$1.1 billion in reported contracts from Iran; it is anxious to reestablish economic links with the new government to avoid contract cancellations. The Japanese, however, will probably more than make up losses from the Iranian modernization cutback by switching to China as a major market for iron and steel exports.

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//The UK's exports to Iran exceeded \$1 billion in 1977 and again in 1978, accounting for about 2 percent of total British exports. Iran was Britain's largest arms client, and half of the \$700 million in new contracts in 1977 and 1978 were for military goods. Plans for most of a \$1.5-billion British-built complex at Esfahan to manufacture guns, ammunition, and spare parts for tanks were suspended by the Bakhtiar government. British arms export contracts totaling nearly \$2 billion also are in

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jeopardy. In 1977, sales to Iran accounted for 6 percent of British motor vehicle exports. Chrysler UK has laid off 1,500 workers because exports to Iran have been disrupted.//

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Italy's sales to Iran have been running at about \$1 billion, or 2 percent of total exports, over the last two years. Italian construction and engineering firms are heavily exposed, with orders totaling \$6 billion. The Italian firms are accustomed to political unrest, strikes, and bureaucratic delays, and are not panicking. Although payments delays are causing cash flow problems, work on most projects is continuing. The Italians are hoping that the new government will not abandon public work projects already under way.

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France's economic stake in Iran has been comparatively small, but recently it has led the developed countries in signing contracts with Iran. In addition to the joint French-US ventures, French firms won \$6.5 billion in new contracts, most signed in 1977. Roughly half were for electric power facilities, primarily nuclear.

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//The nuclear power plant contracts with Framatome, valued roughly at over \$2.5 billion, were recently canceled by the Bakhtiar government. Although most direct financial losses will be covered by the French Foreign Trade Insurance Company, Framatome already is in financial trouble because of the slowdown in France's own nuclear program and a decline in orders from other countries. Even though Framatome recently signed a letter of intent to build two similar plants in China, cancellation of the Iranian project will seriously set back company plans.//

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